

As reprinted from 03/26/2008

No way to balance budget this year, leaders say



PHOENIX — Republican legislative leaders conceded for the first time Wednesday there is no way to balance the budget this year and next without borrowing hundreds of millions of dollars.

House Speaker Jim Weiers said GOP lawmakers balked last fall when Gov. Janet Napolitano proposed borrowing money to build schools rather than paying cash. He said they saw no reason to incur debt — and pay interest — to deal with what was then a \$600 million deficit.

But Weiers said the continued sharp slide of state tax revenues now puts the gap between income and spending higher than \$1.2 billion this year, with possibly a \$1.9 billion deficit for the coming fiscal year. He said there is just no way to make up that gap without borrowing.

Weiers said, though, the state still needs to cut \$1 billion in spending during the current and coming budget year to balance the books. The new GOP stance comes as a testy Gov. Janet Napolitano lashed out Wednesday at Treasurer Dean Martin over his contention the state is spending money as fast as ever.

Martin, at a morning press conference, said his latest computations show that the state will have spent all the money it will take in this fiscal year as early as April 22 — more than two months before the budget year ends June 30.

What angered the governor was Martin's computation that the state is spending money as fast now as it did when Napolitano directed state agency chiefs in September to curb expenses. She said he doesn't know what he's talking about. "He doesn't manage the state agencies, he doesn't see the accounts, he doesn't know what's being held in reserve," she said. "He's making a lot of assumptions or presumptions that are simply inaccurate," Napolitano continued. "And the plain fact of the matter is the state agencies have been abiding by the budget management plans that I have been putting forth."

Martin acknowledged he does not know exactly where each dollar goes. But he said all the bills the state pays pass through his office, as does the state payroll. "We're the bank," Martin said. "We see the dollars in and out."

And 8 1/2 months into the budget year, he said an average of about \$29.3 million a day is going out — a pace he said has more or less remained the same for months.

Napolitano bristled at that claim. "He doesn't know the number," she said. "And he can't."

The governor also pointed out that Martin scheduled his press conference for 9:30 a.m., a half hour ahead of her normal weekly briefing "so you all would ask questions. You've asked questions. He's inaccurate."

Napolitano said she was not “underplaying the urgency” of the state’s fiscal condition. And the governor said she and lawmakers are actively negotiating to plug the gap. “But he adds nothing to the discussion,” she said of Martin. “The treasurer, being a Chicken Little right now, does not help solve the problem.”

The governor and legislative leaders are scheduled to meet again today (eds: thursday) behind closed doors in their efforts to balance the books.

Weiers said there are some stop-gap solutions, including raiding the nearly \$700 million in the state’s rainy day fund and taking cash from other special accounts. But the size of the fiscal hole means borrowing for school construction, essentially taking the expenditure off the books.

House Majority Leader Tom Boone, R-Peoria, said even with that, the books still do not balance. He said it’s going to take large cuts in state spending, to the tune of \$1 billion between now and June 30, 2009.

Boone said Napolitano has offered only \$276 million in budget cuts over the two-year cycle. Napolitano has refused to publicly disclose details of her proposal, saying she does not “negotiate through the media.”

The budget problem is due not to overspending but instead to a depressed economy which has resulted in lower income and sales tax collections.

Richard Stavneak, staff director of the Joint Legislative Budget Committee, said revenues for November were 0.6 percent below the same period a year earlier. That accelerated to a 4.3 percent difference in December and a 16.1 percent drop for January.

He said preliminary figures suggest February collections will be 13.5 percent less than last year. Martin said he already is seeking legal advice of his legal options if there is no budget deal when the available cash runs out.

The treasurer said he does have money. But much of it, such as federal aid and highway bond proceeds, cannot legally be used to pay the state’s operating expenses. There are other special accounts, including the rainy day fund, which lawmakers can direct be used to meet daily obligations. But even the \$700 million in the rainy day fund would cover state spending for only about 25 days.

And after that? Martin said he doesn’t know. “This has never happened before,” he said. “So we’d be really setting precedents.”

by Howard Fischer/Capitol Media Services